

Message Text

CONFIDENTIAL

PAGE 01 ADDIS 03124 01 OF 03 181354Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 XMB-02 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 TRSE-00
OPIC-03 /039 W

-----071349 181431Z /46

R 181305Z JUL 78
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 9054

C O N F I D E N T I A L SECTION 1 OF 3 ADDIS ABABA 3124

DEPT PASS EXIMBANK FOR PRESIDENT MOORE

E.O. 11652: GDS
TAGS: EAIR, PFOR, ET
SUBJECT: ETHIOPIAN AIRLINES (EAL) DESIRE TO FINANCE BOEING
JETS VIA EXIMBANK AND U.S. COMPENSATION CLAIMS INVOLVING EAL

REF: ADDIS ABABA 3113 AND PREVIOUS

1. SUMMARY. EMBASSY HAS NOT RECEIVED A REPORT OF EAL'S DISCUS-
SIONS WITH EXIMBANK JULY 11. CHIEF EAL FINANCIAL OFFICER WHO
HAS JUST RETURNED FROM WASHINGTON TOLD EMBASSY THAT EAL'S
HOPE FOR EXIM FINANCING DOES NOT LOOK PROMISING, ALTHOUGH
EXIM HAS NOT GIVEN FINAL ANSWER. IF THE POSSIBILITY OF BOEING
AIRCRAFT SALES TO ETHIOPIA WITH EXIMBANK FINANCING IS STILL
OPEN THE EMBASSY PUTS FORWARD THE SPECIFIC SUGGESTIONS BELOW
TO ENHANCE SETTLEMENT OF SOME CLAIMS AND HELP ASSURE THE LOAN
REPAYMENT. END SUMMARY.

2. AMBASSADOR SHOULD BE AUTHORIZED TO TELL PRESIDENT OF
EAL IN THE FIRST INSTANCE AND PMGSE SENIOR OFFICIALS SUBSE-
QUENTLY THAT IT WILL BE EXTREMELY DIFFICULT FOR THE EXIM-
BANK TO FINANCE THE TWO 727'S FROM BEOING UNLESS EAL AND/
OR THE ETHIOPIAN GOVERNMENT IS PEPAED TO CLEAN UP VARIOUS
AIRCRAFT TRANSACTIONS OF WHICH EAL WAS THE BENEFICIARY.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ADDIS 03124 01 OF 03 181354Z

DOCUMENTS IN THE EMBASSY'S FILE INDICATE THAT ALL THE
PRIVATE AIRCRAFT NATIONALIZED BY THE PMGSE IN 1975 AND
SUBSEQUENTLY WERE TURNED OVER TO THE EAL AND THE LATTER
ISSUED A FORM OF ACKNOWLEDGEMENT TO THE INDIVIDUAL OR
FIRM WHOSE PROPERTY WAS TAKEN.

3. THE LARGEST SUCH CASE IS THE FORMER AXUM AIR SERVICE

S.C., INVOLVING THE LOSS OF 11 AIRCRAFT AND A CLAIM OF \$367,478.91 BY CLYDE ADAMS AND HIS WIFE JACKLYN, THE FORMER OWNERS OF 92.75 PERCENT OF THE COMPANY STOCK. IN A MEETING IN WASHINGTON WITH ME ON JUNE 27, MR. ADAMS ACKNOWLEDGED THAT EAL HAD PAID HIS ACCRUED TAXES AND EVEN A TAX PENALTY WITH THE APPROVAL OF THE DIRG, THUS ALLOWING HIM TO LEAVE THE COUNTRY. MR. ADAMS IS CLAIMING IN PART THE DIFFERENCE BETWEEN BOOK VALUE AND MARKET VALUE OF HIS AIRCRAFT, WHICH SUGGESTS THAT EAL HAS TAKEN CARE OF THE BOOK VALUE IN SOME FORM. MR. ADAMS PROMISED TO PROVIDE ADDITIONAL DATA. EMBASSY FILES INDICATE THAT AXUM AIR WAS SUBSEQUENTLY MERGED WITH ADMAS AIR SERVICE WHICH IS IN DEFAULT TO EXIM IN THE AMOUNT OF \$2,600.

4. THE AMBASSADOR SHOULD BE AUTHORIZED TO SUGGEST THAT EAL DIRECTLY OR THROUGH THE PMGSE SHOULD MAKE EX GRATIA PAYMENTS FOR THE LIGHT AIRCRAFT NATIONALIZED, RECOGNIZING THE CONTRIBUTION WHICH SUCH AIRCRAFT HAD MADE TO THE DEVELOPMENT OF ETHIOPIA, BUT THE AMBASSADOR WOULD NOT INDICATE ANY AMOUNT FOR SUCH EX GRATIA PAYMENTS. IT SHOULD BE UNDERSTOOD THAT SIMULTANEOUSLY WITH ANY SUCH EX GRATIA PAYMENTS THE RECIPIENTS OF THE FUNDS WOULD WITHDRAW THEIR CLAIMS PENDING BEFORE THE ETHIOPIAN CLAIMS COMMISSION AND AGREE NOT TO MAKE FURTHER CLAIMS FOR COMPENSATION OF THEIR NATIONALIZED PROPERTY. (EMBASSY COMMENT: SUCH A PACKAGE SHOULD ALSO INCLUDE THE DECISION OF THE PMGSE OR EAL TO CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ADDIS 03124 01 OF 03 181354Z

MAKE CURRENT THE PAYMENTS NOW IN ARREARS ON LIGHT AIRCRAFT FINANCED THROUGH THE EXIM/FCIA MENTIONED TO AMBASSADOR CHAPIN BY EXIM ON JULY 5, I.E., THE ADMAS AIR SERVICE AND TENDAHO AGRICULTURAL DEVELOPMENT CORPORATION LOANS.

5. THE EMBASSY IS NOT IN A POSITION TO SUGGEST WHAT A SATISFACTORY EX GRATIA PAYMENT TO AXUM AIR SERVICE'S OWNERS MIGHT BE. MUCH DEPENDS UPON THE PAYMENTS ALREADY MADE BY EAL EITHER TO AXUM'S OWNERS OR ON THEIR BEHALF. ONLY AN APPROACH TO EAL AND SUBSEQUENT DISCUSSION WITH THE ADAMS WOULD REVEAL WHETHER ANY COMMON GROUND CAN BE FOUND.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 ADDIS 03124 02 OF 03 181355Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 XMB-02
OPIC-03 TRSE-00 /039 W
-----071360 181432Z /46

R 181305Z JUL 78
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 9055

C O N F I D E N T I A L SECTION 2 OF 3 ADDIS ABABA 3124

DEPT PASS EXIMBANK FOR PRESIDENT MOORE

THE EMBASSY MUST NOTE THAT CLYDE ADAMS' CLAIM IS VASTLY INFLATED. THE COMPREHENSIVE MAY 17, 1975, AUDIT REPORT PREPARED BY AXUM'S OWN AUDITORS, MANN JUDD & CO. OF ADDIS ABABA AND PROVIDED TO THE EMBASSY IN 1975 AT CLYDE ADAMS'S REQUEST SHOWS THAT THE COMPANY'S NET WORTH ON THE DATE OF NATIONALIZATION, MAY 16, 1975, WAS ETHIOPIAN \$160,126 OR \$78,110. THE COMPANY HAD NET CURRENT LIABILITIES OF E \$58,236, AND FIXED CURRENT ASSETS OF E \$218,362. THE REPORT ALSO REVEALS AN ACCUMULATED LOSS OVER THE YEARS OF OPERATION OF E \$39,874, WHICH REDUCED THE PAID-IN VALUE OF THE SHARE CAPITAL OF E \$200,000.

6. THE REST OF THE CLAIMS FOR LIGHT AIRCRAFT NATIONALIZED SHOULD BE ABLE TO BE SATISFIED BY AN EX GRATIA PAYMENT NOT TO EXCEED \$100,000: A) LESLIE ANDERSEN \$8,500; B) KENNETH F. GEMBALA REQUESTING \$30,000; C) DONALD MCCLURE SR. AND JR. REQUESTING UNSPECIFIED AMOUNTS FOR THEIR AIRCRAFT; AND D) A SIMILAR CLAIM FROM JERRY PIERCEY. ALL THESE INDIVIDUALS APPEAR ON THE LIST OF CLAIMENTS AVAILABLE TO AP/E AND EB, BUT ONLY LESLIE ANDERSEN HAS FILED AN ACTUAL CLAIM FOR COMPENSATION WITH ETHIOPIAN AUTHORITIES, ACCORDING TO EMBASSY RECORDS. WOULD THE DEPARTMENT BE PREPARED TO ASK THE CLAIMENTS MENTIONED IN PARAGRAPHS 5 AND 6 WHAT THEY WOULD BE WILLING
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ADDIS 03124 02 OF 03 181355Z

TO ACCEPT IN THE WAY OF AN EX GRATIA PAYMENT THUS ELIMINATING FURTHER EXPENSES IN PURSUING THEIR CLAIM AND ON THE UNDERSTANDING THAT THEY WOULD WAIVE ANY AND ALL CLAIMS AGAINST THE PMGSE, IF THEY SHOULD RECEIVE SUCH EX GRATIA PAYMENTS?

7. IN ADDITION TO COMPENSATION ISSUES, ON WHICH WE HAVE RECEIVED SOME INFORMAL INDICATIONS THAT THE PRESIDENT OF EAL WOULD BE HELPFUL, THERE IS THE QUESTION OF WHETHER EAL AND ETHIOPIA WILL BE ABLE TO SERVICE ANY NEW EXIMBANK

LOAN IN VIEW OF THE HIGH BUT UNKNOWN DEGREE TO WHICH THE ETHIOPIANS HAVE MORTGAGED THEIR FOREIGN EXCHANGE RESERVES TO PAY FOR WEAPONS FROM THE SOVIET UNION. PICKING UP AN INFORMAL SUGGESTION OF THE AVIATION DIVISION OF THE STATE DEPARTMENT, THE EMBASSY SUGGESTS THAT EAL BE QUERIED AS TO WHETHER THEY WOULD AGREE TO PAY PROGRESSIVELY INTO THE INTEREST-BEARING ACCOUNT OF AN AMERICAN OVERSEAS BANK THE EQUIVALENT OF TWO YEARS INTEREST AND PRINCIPAL ON THE EXIMBANK LOAN. THIS WOULD BE A REVOLVING FUND WITH AN AUTHORIZATION TO THE BANK OF DEPOSIT BY EAL THAT IN THE EVENT THAT THERE SHOULD BE A TEMPORARY INTERRUPTION IN THE REPAYMENT OF THE EXIMBANK LOAN BY THE PMGSE, THE EXIMBANK COULD REQUEST AND OBTAIN PAYMENT FROM THE BANK FOR AMOUNTS DUE UP TO THE EQUIVALENT OF THE AMOUNT ON DEPOSIT FOR EAL. IN ADDITION, THE U.S. SHOULD REQUEST EAL TO OBTAIN A PMGSE DECREE OR RULING EXEMPTING ITS REGULAR DEPOSITS OF FOREIGN EXCHANGE AT THE ETHIOPIAN NATIONAL BANK FROM TRANSFERS TO MEET OTHER LIABILITIES DURING THE PERIOD OF REPAYMENT OF THE LOAN. IN OTHER WORDS, THE EAL WOULD REQUEST THE ESTABLISHMENT OF AN ACCOUNT BLOCKED FOR ALL PURPOSES OTHER THAN MEETING ITS LIABILITIES.

8. EMBASSY COMMENT: THE PMGSE MIGHT CONCEIVABLY WELCOME AN OPPORTUNITY TO REMOVE PART OF ITS FOREIGN EXCHANGE
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ADDIS 03124 02 OF 03 181355Z

EARNINGS AND RESERVES FROM ROUTINE DRAWDOWNS TO MEET PAYMENT SCHEDULES FOR SOVIET ARMS. EVEN IF EAL AND/OR THE PMGSE REJECTED THE SPECIAL ACCOUNT CONCEPT, THE U.S.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 ADDIS 03124 03 OF 03 181418Z
ACTION EB-08

INFO OCT-01 AF-10 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 XMB-02
OPIC-03 TRSE-00 /039 W
-----071827 181432Z /46

R 181305Z JUL 78
FM AMEMBASSY ADDIS ABABA
TO SECSTATE WASHDC 9056

C O N F I D E N T I A L SECTION 3 OF 3 ADDIS ABABA 3124

DEPT PASS EXIMBANK FOR PRESIDENT MOORE

VIA THE EXIMBANK, WOULD HAVE BEEN DEMONSTRATED TO HAVE TRIED TO BE HELPFUL AND FORTHCOMING BY ATTEMPTING TO WORK OUT UNUSUAL REPAYMENT GURANTEE ARRANGEMENTS. THE RATIONALE FOR EXIMBANK'S ULTIMATE REFUSAL TO FINANCE THE PURCHASE OF THE TWO BEOING 727'S WOULD BE MUCH MORE PALATABLE THAN A SIMPLE REFUSAL ON FINANCIAL GROUNDS WHICH COULD BE INTERPRETED BY THE PMGSE AS DIRECTLY LINKED TO SOVIET PRESENCE. THE EMBASSY HAS REASON TO BELIEVE THAT THERE WAS A GREAT DEBATE WITHIN THE PMGSE AND THE DIRG ABOUT WHETHER TO SEEK EXIMBANK FINANCING FOR NEW AIRCRAFT OR GO TO THE RUSSIANS FOR ILLYUSHINS. CHAIRMAN MENGISTU IS SAID TO HAVE PERSONALLY DECIDED IN FAVOR OF U.S. AIRCRAFT. AT A TIME WHEN THE UNITED STATES GOVERNMENT IS ATTEMPTING TO IMPROVE RELATIONS WITH ETHIOPIA, A PERSONAL REBUFF TO CHAIRMAN MENGISTU WOULD NOT BE HELPFUL AND A DEMONSTRATION THAT WE HAD BEEN AS FORTHCOMING AS POSSIBLE WOULD BE OF GREAT ASSISTANCE. THE ONUS FOR THE FAILURE OF THE SALE OF THE AIRCRAFT WOULD BE SHIFTED TO THE PMGSE FOR REFUSING TO ACCEPT THE SPECIAL REPAYMENT CONDITIONS NECESSITATED BY THAT GOVERNMENT'S EXTENSIVE MORTGAING OF ITS PRESENT AND FUTURE FOREIGN EXCHANGE RESERVES BY CREDIT PURCHASES OF SOVIET ARMS REPAYABLE OVER RELATIVELY SHORT PERIODS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ADDIS 03124 03 OF 03 181418Z

9. THE EMBASSY RECOGNIZED THAT THE PROPOSED REPAYMENT MECHANISM MAY APPEAR TOO ESOTERIC TO EXIMBANK BUT EARNESTLY REQUESTS THE BANK TO EXERCISE CREATIVE STATESMANSHIP AND ASSUME A SOMEWHAT INCREASED RISK FOR POLICY REASONS. EAL HAS A HISTORY OF PROFITABILITY AND CONSISTENT FOREIGN EXCHANGE EARNINGS. THE NEW PLANES WOULD IMPROVE ITS FOREIGN EXCHANGE EARNING CAPACITY.

10. THE EMBASSY FURTHERMORE RECOGNIZES THAT THERE IS NO PURPOSE IN PURSUING ANY SPECIAL REPAYMENT ARRANGEMENTS, IF THE EXIMBANK IS DISPOSED TO REJECT THE LOAN FOR CONSIDERATIONS OTHER THAN REPAYMENT RISK, E.G., HUMAN RIGHTS CONSIDERATIONS.

11. THE APPROACH BEING PROPOSED IS DESIGNED TO ATTEMPT TO OBTAIN SOME FOWARD PROGRESS ON COMPENSATION CLAIMS OF AMERICAN CITIZENS AND CORPORATIONS, THUS ALLOWING THE U.S. ECONOMIC ASSISTANCE PROGRAM TO GO FORWARD, EVEN IF THE EXIMBANK SHOULD FINALLY DECIDE NOT TO APPROVE A LOAN TO

EAL. THE APPROACH ON COMPENSATION WOULD NOT ASSURE EAL OF FAVORABLE ACTION ON THE LOAN FOR TWO AIRCRAFT, BUT SIMPLY CITE SATISFACTORY SOLUTION OF PENDING COMPENSATION FOR LIGHT AIRCRAFT AND PAYMENT OF ARREARS ON LOANS FOR LIGHT AIRCRAFT AS ABSOLUTELY MINIMUM PRE-CONDITIONS FOR FURTHER CONSIDERATION OF THE EXIMBANK FINANCING REQUEST, CITING THE GREAT PATIENCE OF THE USG ON COMPENSATION CLAIMS OVER 3 1/2 YEARS AND THE DIRECT RELATION OF EAL TO THE COMPENSATION CLAIMS BEING ADVANCED.

12. THE EMBASSY WOULD ADVOCATE APPROACHING EAL ON THE SPECIAL REPAYMENT TERMS, ONLY IF ALL OTHER POTENTIALLY NEGATIVE FACTORS WHICH MIGHT PREVENT THE U.S. APPROVAL OF CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ADDIS 03124 03 OF 03 181418Z

THE LOAN HAD PREVIOUSLY BEEN RESOLVED. ANY OTHER COURSE WOULD POSE TOO GREAT A RISK TO OUR FRAGILE BILATERAL RELATIONS.

13. FINALLY, THE ESTABLISHMENT OF SPECIAL REPAYMENT TERMS MIGHT DRIVE A SMALL WEDGE BETWEEN THE PMGSE AND THE SOVIETS. THE ETHIOPIANS WANT AND NEED NEW PLANES AND THEY HAVE DECIDED THAT THEY WANT U.S. ONES. THEY MIGHT AGREE TO REPAYMENT ARRANGEMENTS WHICH WOULD DISCOMFIT THEIR NEW-FOUND ALLIES, AND THAT WOULD BE ALL TO OUR GOOD. THERE ARE PRECIOUS FEW THINGS WE CAN DO TO TRY TO OPEN UP A LITTLE DISTANCE IN THE SOVIET-ETHIOPIAN EMBRACE.
CHAPIN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, AIRLINES, AIRCRAFT SALES
Control Number: n/a
Copy: SINGLE
Draft Date: 18 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ADDIS03124
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780294-0750
Format: TEL
From: ADDIS ABABA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780750/aaaabpve.tel
Line Count: 310
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 30e9f071-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 ADDIS ABABA 3113
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 28 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1980297
Secure: OPEN
Status: NATIVE
Subject: ETHIOPIAN AIRLINES (EAL) DESIRE TO FINANCE BOEING JETS VIA EXIMBANK AND U.S. COMPENSATION CLAIMS INVOLVING EAL
TAGS: EAIR, PFOR, ET, ETHIOPIAN AIRLINES, BOEING, XMB
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/30e9f071-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014